



SUMMARY MINUTES

DRAFT

BOARD OF DIRECTORS – 17th Annual Meeting

May 28, 2003 - 12:30 p.m.

South San Francisco Conference Center

255 South Airport Boulevard

South San Francisco, CA 94080-6703

PRESIDING:

Gretchen Conner, Chair

Campbell

MEMBERS PRESENT

Sharon Barker
Edmund San Diego
Larry Anderson
Sandy Abe
Carol Ferrell
Julie Carter
Kristi Chappelle
LeeAnn McPhillips
Martha DeBry
Phil Rose
Maureen Cassingham
Orry Korb
Greg Sam
Emma Karlen
Jack Dilles, Vice-Chair
Cecilia Quick
Pamela Thompson
Jesse Baloca
Ronda Rivera
Alex McIntyre

Atherton
Belvedere
Burlingame
Cupertino
Cupertino
Dublin
Foster City
Gilroy
Hillsborough
Los Altos
Los Altos Hills
Los Gatos
Millbrae
Milpitas
Morgan Hill
Pacifica
San Bruno
Saratoga
Suisun City
Tiburon

MEMBERS ABSENT:

Elizabeth Wessman-McGee
Alan Nadritch
Diane McGrath
Russell Averhart
Debra Ryan

American Canyon
Benicia
Colma
East Palo Alto
Half Moon Bay

Barbara Lathrop
Angela Howard
Gary Broad
Jeff Maltbie
Jim Steele
Susan George

Newark
Portola Valley
Ross
San Carlos
South San Francisco
Woodside

STAFF PRESENT

Eugene Leong, President
Marcus Beverly, Risk Manager
Joseph Chan, Chief Financial Officer
Kenneth Moy, Legal Counsel
Angela Salisbury, Claims Manager
Eileen Barr, Claims Examiner
Brenda Brown, Secretary

CONSULTANTS

Dennis Mulqueeney – Driver Alliant Insurance Services
Seth Cole – Driver Alliant Insurance Services
John Alltop – Bickmore Risk Services

Welcome: Marcus Beverly welcomed everyone to South San Francisco.

1. Call to Order: Chairman Gretchen Conner called the meeting to order at 12:35 p.m. A quorum of 20 members was present.

2. Public Comments: None

3. Approval of Minutes: May 22, 2002 Board of Directors' meeting minutes approved as presented /M/Korb/S/Chappelle/C/unanimously approved

4. Business Meeting:

A. Election of Officers FY 2003-2004: The Executive Committee nominated Jack Dilles of Morgan Hill as ABAG PLAN Corporation Chair and Orry Korb of Los Gatos as Vice Chair for fiscal year 2003/2004. /M/San Diego/S/Anderson/C/unanimously approved.

Gretchen Conner was recognized for her leadership as ABAG PLAN's Chair over the last year.

B. Appointments: There is one vacancy on each of the following committees: Executive, Finance, Loss Prevention and Claims. Pamela Thompson of San Bruno agreed to join the Claims Committee and Sandy Abe of Cupertino will serve on the Executive Committee.

- C. Meeting Schedule:** The Finance Committee will meet on 2/18/04, not 2/11/04 as listed on the proposed meeting schedule. There were no recommendations to change any other meeting dates on the proposed meeting schedule.

- 5. The Year in Review:** Eugene Leong gave an overview of ABAG PLAN for the 2002/2003 fiscal year. Change is inevitable. PLAN needs to be prepared to deal with traditional and unexpected changes. We have no control over external change, but prevention strategies and long range planning are necessary to help us manage internal changes. There was a 30% increase in sewer claims in the past four years compared to the first 13 years of PLAN's existence. The cost of these claims has significantly increased over this period. Budget constraints and deferred maintenance will likely lead to an increased number of claims, so it is important to understand this when priorities are set.

6. Actuary Report/Renewal Options and Funding Options:

A. Actuary/Underwriting Report:

John Alltop, Principal Actuary of Bickmore Risk Services, gave an overview of the self-funded excess liability program. Funding of the program is very strong. Premiums are up an average of 3.1% this year based on an increase in losses and increase in total payroll.

B. Renewal Options for Liability and Property Program:

Dennis Mulqueeney, Vice President of Driver Alliant Risk Services, discussed his firm's efforts to market PLAN's excess liability and property coverages for 2003/2004.

Property Insurance:

There was a 9% increase in total insurable value of property and an 11% decrease in the premium. The property market has stabilized a bit more this past year.

Significant Property Policy Changes:

Lexington Insurance Company will be the primary carrier and the total per occurrence limit rises to \$750,000,000. Terrorism Coverage of up to \$7,500,000 per occurrence (annual aggregate shared per declaration) was added this year. Automatic acquisition coverage increased to \$25,000,000. Unscheduled tunnels and bridges and public right of way infrastructure coverage decreased from \$500,000 to \$250,000.

Boiler & Machinery Policy:

There was a 9% increase in the total insurable value of property and a .02% increase in premium.

Excess Liability:

Mr. Mulqueeney discussed the options for renewal of the excess liability coverage: "standard" excess insurance; excess/reinsurance insurance through a purchasing group; "stand alone" reinsurance placement or captive involvement.

Crime Coverage:

It is anticipated that this coverage will increase up to 20%, but the final amount is dependent on receipt of the completed applications from the member cities. In order to negotiate a favorable rate, Mr. Mulqueeney needs to have solid information from everyone.

C. Funding Options:

Liability Program: Marcus Beverly discussed the funding options for the 2003/2004 fiscal year. Our new actuary, Bickmore Risk Services, uses similar techniques as our prior actuary with a few key differences noted in staff's report.

Motion for approval to retain funds in excess of expected liabilities at a 90% confidence level in the SIR Fund and to fund the expected FY2003-04 losses with a \$5 million SIR option. /M/San Diego/S/Quick/C/approved. Opposed – Alex McIntyre.

Property Program: The Property Program funding was approved as presented above. Motion to approve the funding of the property program and to fund appraisals with service credits and up to \$50,000 of pool funds. /M/Anderson/S/LeeAnn McPhillips/C/unanimously approved.

7. Loss Prevention Committee Report:

Marcus Beverly presented the proposed Loss Prevention Programs:

A. Risk Control Assessment:

Bickmore Risk Services proposal for \$106,000 per year for two years, as presented in the report, but the contract may be canceled after one year if members are not satisfied with the quality of the reports received. An additional staff request of \$20,000 for follow-up consultation as needed. Total funding request: \$232,000.

B. Sewer Loss Prevention:

Re-allocate funding based on feedback from members, to include more training of field personnel and public service announcements.

C. Police Risk Management:

\$83,962 for matching camera grants and \$20,000 for training. Total funding: \$103,962.

D. Defensive Driving:

\$5,000 to continue the defensive driving classes available through the State.

E. Risk Management Training:

\$10,000 to encourage members to participate in training and PARMA Conference.

The Loss Prevention Programs were approved as presented with a total funding for Fiscal Year 2003-04 of \$350,962. /M/Korb/S/San Diego/C/ unanimously approved

8. Financial Summary Report

A. Investment Performance Report

Joseph Chan presented the Investment Performance Report for FY 02-03 as of 12/31/02. The overall average yield on our investments is 4.3%. The 2002-2003 actuarial assumption was based on a 4.5% rate of return on investments.

- We expect above-deductible claim payments for 2002-2003 to be about \$3 million. The Finance Committee recommends maintaining LAIF balance to be not less than \$6 to \$7 million during FY 2003-04.
- In order to pick up yields that come close to our actuarial assumption of 4.5% we should invest in 5 to 7 year notes. When interest rates go higher it may be advantageous to trade out of the lower yielding securities in the portfolio. A certain amount of capital loss is expected when market interest rates are higher than the coupon rate of the security being sold. Such a swap can be justified if the yield of the security purchased is high enough to earn back the capital loss within the same holding period of the security sold. The Finance Committee recommends adopting an investment strategy that allows taking capital losses when swap transactions as described above become available.

B. Audited Financial Report:

PLAN has \$38 million in total assets; \$15 million of that is in claims reserves. The expenses over the year were fairly close to the budget. Gilbert Associates, Inc. audited PLAN balance sheets as of 6/30/02.

Motion to accept the Investment Report and Audited Financials as of 6/30/02. /M/San Diego/S/McIntyre/C/unanimously approved.

9. Planning Meeting Report:

Marcus Beverly presented information on the results of the 2002 Strategic Planning meeting. The next meeting is set for October 8, 2003 for a full board planning meeting. If necessary, October 9, 2003 can be used for a ½ day follow-up for the Executive Committee.

The meeting schedule for FY 2003-04 was approved along with the focus for the October Strategic Planning meeting to revise the Memorandum of Coverage and governing documents. The Finance Committee will meet 2/18/04, not 2/11/04. /M/Quick/S/Abe/C/unanimously approved.

10. Claims Committee Report:

In FY 2002-03, the Board approved funds for a staffing plan to address a number of needs, including containing the growing expense of sewer claims. After a trial period using independent adjusters, a property claim specialist, Bruce Carey, was hired to manage these claims.

Several claim reports were provided for review and discussion.

We are closely monitoring a lawsuit filed by a property owner after rejection of his sewer backflow claim. The claim was rejected because the structure was not up to codes requiring a backflow prevention device.

11. Administrative Budget:

The proposed expenses reflect an 11% increase, primarily due to increased benefits and costs for the new property claim specialist. We expect to use \$75,000 of our reserves in FY2003-04.
The budget for FY 2003-04 is approved. /M/McIntyre/S/DeBry/C/unanimously approved.

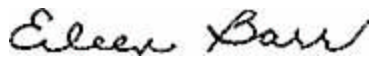
12. Other Business:

There was recognition of Marcus Beverly for all of his hard work preparing for the PLAN Board meeting.

13. Adjournment:

The meeting was adjourned at 3:45 p.m. on Ed San Diego's motion.

Respectfully submitted,

A handwritten signature in cursive script that reads "Eileen Barr".

Eileen Barr
ABAG PLAN